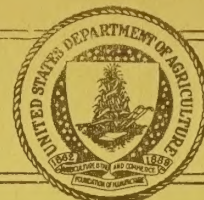


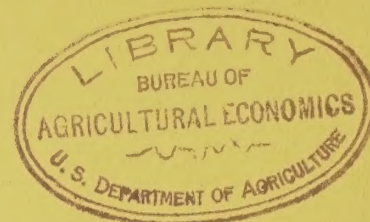
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CONSUMER INCOME TREND IMPORTANT
INFLUENCE ON 1936 FOOD PRICES

The following analysis of the prospective food price situation in 1936 has been made by Donald E. Montgomery, Consumers' Counsel of the Agricultural Adjustment Administration:

An important influence on the trend of retail food prices during the year will be the trend of consumer income. If, as is expected, there is a marked rise in consumer buying power during the coming year, retail food prices will be higher because of that fact than they will be if no such rise takes place. Not all foods will respond in the same degree to that influence, but all of them will respond in some degree. This does not mean, however, that retail food prices generally will be higher during the next year than they are now. Larger supplies of some foods for the coming year will tend to offset increased consumer buying power so that prices may hold at present levels or go lower.

In the fall of each year the Bureau of Agricultural Economics of the Department of Agriculture brings together in one report called the Agricultural

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Outlook the facts that bear upon the supply of each major agricultural product or class of product for the current marketing year. So far as these facts permit, the report predicts the price trends that are likely to prevail on each commodity or group during the period. These predictions take account of the anticipated changes in demand resulting from changes in business activity, payrolls, credit, foreign markets and similar factors.

Meat prices are of most concern to consumers, not only because they are relatively higher than most other foods, but because they have risen more rapidly from the especially low levels which they reached during the depression. The Outlook Report points out that pork supplies during the current marketing year, which began on October first, will be smaller than the supplies during the year that began on October 1, 1934. Consequently pork prices are expected to average higher during the current year than they did last year. But this forecast of higher pork prices is based upon averages for two 12-month periods, one beginning October 1, 1934 and the one which began October 1, 1935. During the former period the trend of pork prices was sharply upward; but during the present period the trend is expected to be downward. The peak probably occurred last September. A noticeable decline in retail pork prices has taken place since then, but from now until late spring or early summer the expectation is for little further drop. A seasonal increase usually occurs in pork prices from December to March; but this year hog supplies will be increasing slightly during that period and the seasonal rise is expected to be less than usual or may not take place at all. The low point in pig production was reached last spring when feed supplies were at their lowest; we are now passing through the low point in hog marketing which corresponds to that low point in production. The pig crop from June 1 to December 1, 1935 is reported to be 30 percent larger than in the same months of 1934. By early summer when this supply is coming to market slaughter

should be somewhat larger than in the present winter months, although the usual summer slaughter of hogs runs about 20 percent below winter slaughter. If the usual seasonal variation takes place in weight of hogs slaughtered, the pork supply next summer will be 10 percent larger than the supply this winter.

The AAA corn-hog program for 1936 provides for a large increase in hog supplies. Producers who make contracts under the program will be permitted to increase their output over that of last year, and the relation of hog and corn prices is such that producers will make every effort to do so. We hope that pig production in 1936 will be 30 percent larger than it was in 1935, which is about all that could be expected in the absence of an adjustment program. This increased production will begin to have its effect upon market supplies in the last quarter of 1936.

Supplies of beef also continue to reflect the effects of the 1934 drought, and in 1936 it is expected that the slaughter of beef cattle will be smaller than in 1935. We will not have as large a supply of cows and calves as we have had in 1935, when an unusually large proportion of the supply came from dairy sections and high feed prices resulted in unusually heavy shipment of calves. But the supply of better grades of beef animals, grain-fed steers, will be larger than last year, especially after March, and it is expected therefore that better grades of beef will sell for a lower price in the first half of 1936 than in the first half of 1935. Lower grades of beef, however, may bring prices as high as 1935 or even higher. The trend of beef prices through the year is expected to follow the usual seasonal pattern more closely than was the case in 1935; beef cattle normally reach their high price for the year in May and then decline to a low point in November or December. Lower pork prices toward the end of the year may well have some effect on beef prices.

For lamb the outlook tells us only that the supply of fed lambs, which come on the market from December to April, will be smaller than last year and

the price will probably be higher than for any year since 1930. Supplies after April will depend upon the number of lambs produced in 1936.

Poultry numbers on farms are low, but increasing. Poultry supplies however are not expected to increase rapidly because more than the usual proportion of hens will be retained for laying. Egg production will be larger than last year but the smaller carryover on July 1, 1935 offsets this greater production and leaves us with a slightly smaller total supply. Poultry prices will remain high during the early months of 1936 but will probably be lower after May. Egg prices are now going down and may continue downward during the remainder of the winter unless increased consumer buying power or severe weather conditions check this tendency.

The Outlook Report tells us about what to expect in the matter of wheat prices, and the price of flour will probably follow the wheat trend closely. Bread prices in turn may follow flour prices, but the relationship there is much less exact than the relation of flour to wheat and shows considerable variation from one city to another. Here briefly is the story of wheat: Average acreage sown during the past three years was only slightly below the average for the three years 1930 to 1932, but drought and rust have combined to reduce the yields, with the result that the average of crops harvested in the later period was 37 percent lower. Production and carryover this year are large enough to meet our demands in terms of total bushels, but rust damage to spring wheat, an important source of bread flour, has reduced the quantity of that wheat which can be milled and has reduced the flour yield of that part of it which will be milled. Canadian wheat is being imported to make up this deficiency. As a result, prices of spring wheat and hard winter wheat, the kinds of which flour for bakers' break is chiefly made, were about 7 percent higher on December 21 than on December 22, 1934. Soft winter wheat prices were only 4 percent higher

than a year ago. Flour prices reached a high point in the first week of October when they were about 15 to 22 percent above the previous year, but by December 21 had declined to prices 11 to 16 percent above prices of a year earlier. Acreage in prospect for 1936 harvest will, if yields are normal, produce more wheat than is normally consumed, and if that expectation is realized, both wheat and flour prices should be lower next summer and fall.

The average retail price of white bread as reported by the Bureau of Labor Statistics went up 0.3 cent per pound from October 8 to December 3. Apparent changes in ingredient costs from a year earlier are about in line with that change in retail price, provided the ingredients used have remained substantially unchanged. It is doubtful that ingredient costs will bring about a further large increase in the average price of bread.

Milk and other dairy products are expected on the whole to be more abundant in 1936 than they were in 1935. Prices of dairy products are expected to be lower during the first quarter of 1936 than in the same period of 1935. The price of butter, however, follows quite closely the trend of consumer incomes, and higher payrolls in 1936 will probably mean higher butter prices, modified perhaps by the larger supply. The supply of other edible fats and oils, excluding lard, will be about 17 percent larger during the present marketing year than a year ago.

Fresh fruits and vegetables and canned fruits and vegetables from 1935 crops are abundant. Omitting potatoes, the supply of these foods is estimated to exceed the supply from 1934 crops by varying amounts -- a seven percent increase in fresh vegetables, a 13 percent increase in fresh fruits, and an increase of 29 percent in dried fruits. The large potato crop that was expected this year was substantially cut down by frost damage in October. The estimate on December 1 placed the late crop, which is the present source of supply, about

10 percent below the large late crop of 1934, and slightly below the average late crops of the five years 1930-34. Retail potato prices during 1936 were relatively low; that is, they were at the level of the year 1913 during part of the year, while the average of all foods has been about 20 percent higher than in 1913. Potato prices have gone up since the middle of October and they may go higher during the early months of 1936. What they will be later in the year will depend chiefly upon the 1936 acreage and yield, which we do not yet know.

The supply of rice for the current season is lower than last year and lower than average. Production in 1935 was higher than in 1934 but the carry-over was small. Export demand will have considerable influence upon the price which this smaller supply will bring in this country. Larger supplies are in prospect from the crop to be harvested in 1936.

On the whole the 1936 prospect for food prices is not unfavorable to the consumer. Fruits and vegetables are expected to be in abundant supply from 1935 crops and should be cheaper; dairy products will also be more plentiful; flour and bread prices should not change greatly from present levels until the new wheat crop is known, when, if planting prospects prove out, lower levels should prevail; potatoes and rice will be higher; meat prices will not be cheaper during the first half of the year, but relief from the present high level of meat prices is to be expected in the second half of the year, especially in the case of pork and lard in which the decline at that time may be substantial. At least for those who participate in the expected improvement in incomes, the food price outlook may prove distinctly favorable before the end of 1936.

